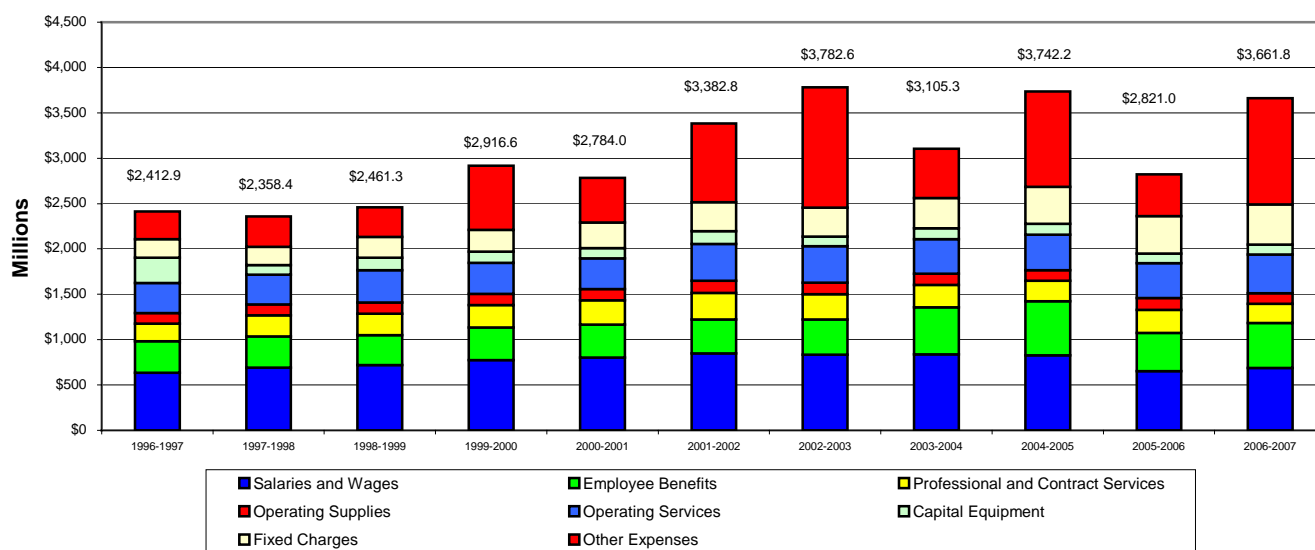


**CITY OF DETROIT
APPROPRIATIONS
FOR FISCAL YEAR 1996-1997 THROUGH FISCAL YEAR 2006-2007**

The following chart and schedule compares the total budgeted appropriations over ten fiscal years from 1996-1997 through 2005-2006, and total appropriations in the Mayor's 2006-2007 Proposed Budget.



In Millions

Fiscal Year	Salaries and Wages	Employee Benefits	Professional and Contract Services	Operating Supplies	Operating Services	Capital Equipment	Fixed Charges	Other Expenses	Total
1996-1997	\$ 635.8	\$ 346.3	\$ 195.3	\$ 115.4	\$ 332.1	\$ 279.0	\$ 204.7	\$ 304.3	\$ 2,412.9
1997-1998	689.9	345.9	232.1	121.5	327.9	105.7	198.2	337.2	2,358.4
1998-1999	719.8	329.7	238.1	121.5	357.7	136.4	229.5	328.6	2,461.3
1999-2000	773.8	360.3	246.9	122.1	344.9	123.5	236.6	708.5	2,916.6
2000-2001	804.0	361.4	268.4	123.5	339.1	113.7	280.7	493.2	2,784.0
2001-2002	848.1	374.8	293.9	133.9	402.5	143.7	319.3	866.6	3,382.8
2002-2003	835.8	386.9	278.1	126.8	400.7	106.5	320.0	1,327.8	3,782.6
2003-2004	840.2	516.7	244.8	124.8	382.5	116.8	336.0	543.5	3,105.3
2004-2005	830.0	597.6	224.5	116.5	390.3	121.7	408.4	1,053.2	3,742.2
2005-2006	650.5	425.9	252.1	132.0	382.3	105.4	412.6	460.2	2,821.0
2006-2007 (A)	686.8	498.3	209.3	118.2	424.4	109.8	445.6	1,169.4	3,661.8

(A) Mayor's 2006-2007 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of appropriations in the Mayor's 2006-2007 Proposed Budget and a comparison to appropriations in the fiscal year 2005-2006 budget including salaries and wages and employee benefits.

SALARIES AND WAGES

The Mayor's 2006-2007 Proposed Budget includes \$686.8 million for Salaries and Wages, an increase of \$36.4 million (5.6%) from the fiscal year 2005-2006 Budget. The \$36.4 million increase is the net effect of salary adjustments, eliminating the Zoological Institute and Historical Department, retaining the Civic Center and the Department of Transportation, and reductions in the number of funded positions. The following comparative schedule shows the amount of Salaries and Wages included in the Mayor's 2006-2007 Proposed Budget and the fiscal year 2005-2006 Budget:

	In Millions		
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Civilians	\$ 427.6	\$ 420.3	\$ 7.3
Uniform Police	187.4	163.0	24.4
Uniform Fire	71.8	67.1	4.7
Total Salaries and Wages	<u>\$ 686.8</u>	<u>\$ 650.4 (A)</u>	<u>\$ 36.4</u>

(A) The adopted budget was amended prior to the beginning of the fiscal year to add back \$23.1 million in 10.0% salary reductions for Police and Fire uniform employees and to restore the Office of Homeland Security. Total budgeted salary and wages for fiscal year 2005-2006 are \$673.5 million.

Salary Adjustments

The Mayor's 2006-2007 Proposed Budget includes an \$11.0 million savings in Salaries and Wages due to 10.0% salary cuts for the Mayor and civilian union employees. Proposed salary cuts for civilian union employees, excluding Police and Fire, will be accomplished by requiring days off without pay (26 days annually).

In the fiscal year 2005-2006 Budget, 10.0% salary cuts were included for the Mayor, appointees, union, and non-union employees. The Mayor, appointees, and non-union employees took the 10.0% salary cuts; however, except for the attorney's union, the union employees did not agree to accept the salary cuts. The Police and Fire uniform personnel were exempted from the 10.0% salary cut because of legal constraints imposed on the City by the Act 312 Arbitration process. A budget amendment was passed prior to the beginning of the fiscal year restoring \$22.8 million to fund Police and Fire uniform employees and \$0.3 million to restore the Office of Homeland Security. The appointees and non-union employees will have their salaries restored by the end of fiscal year 2005-2006 and August 2006, respectively.

In his April 12, 2006 budget address, the Mayor stated that he had the legal authority to impose the City's last best offer on the unions if an agreement could not be reached by the start of the fiscal year or so that savings could be realized beginning July 1, 2006.

In our opinion, the budgeted \$11.0 million in cost saving derived from salary pay cuts is questionable. The projected cost savings is based on twelve months or the entire fiscal year 2006-2007; however, union endorsement of the pay cuts has not been forthcoming and concessions may not be reached by the beginning of fiscal year 2006-2007. In addition, the Mayor can only impose the City's last best offer on those unions where an impasse in negotiations is declared and the fact-finding process has taken place. Only one union, representing approximately 25% of the City's unionized workforce, has reached that stage in the negotiation process.

Unlike the prior fiscal year, the proposed budget includes all merit and step pay increases for fiscal year 2006-2007. Merit and step pay increases are contract-negotiated items.

The chart that follows compares actual Salaries and Wages to budget for fiscal years 2001-2002 through 2004-2005, budgeted Salaries and Wages to estimated Salaries and Wages for fiscal year 2005-2006, and projected Salaries and Wages for fiscal year 2006-2007. Actual Salaries and Wages were lower than budget by \$35.7 million for fiscal year 2004-2005. Estimated Salaries and Wages for fiscal year 2005-2006 are expected to reach \$672.2 million, just under the budgeted amount for the fiscal year.



For fiscal year 2004-2005, actual Salaries and Wages for Civilians fell below budgeted levels by \$29.3 million or 5.5%. The schedule below compares budgeted Salaries and Wages for Civilian and Uniform employees for the fiscal years 2001-2002 through 2004-2005, budgeted Salaries and Wages to estimated Salaries and Wages for fiscal year 2005-2006, and the proposed fiscal year 2006-2007 Salaries and Wages. Actual Salaries and Wages for fiscal year 2006-2007 are not available and are indicated with a N/A.

Fiscal Year	In Millions								
	Civilian			Uniform Police and Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget
2001-2002	\$ 569.3	\$ 531.1	\$ (38.2)	\$ 278.7	\$ 286.7	\$ 8.0	\$ 848.0	\$ 817.8	\$ (30.2)
2002-2003	560.5	545.6	(14.9)	275.2	286.4	11.2	835.7	832.0	(3.7)
2003-2004	552.8	535.2	(17.6)	287.4	305.8	18.4	840.2	841.0	0.8
2004-2005	532.0	502.7	(29.3)	298.0	291.5	(6.4)	830.0	794.3	(35.7)
2005-2006	420.6	412.7	(7.9)	252.9	259.5	6.6	673.5	672.2	(1.3)
2006-2007	427.6	N/A	N/A	259.2	N/A	N/A	686.8	N/A	N/A

NOTE: The fiscal year 2005-2006 budgeted amount for Police and Fire was amended to include \$22.8 million related to the rescission of the 10.0% pay reduction. The actual amounts shown for fiscal year 2005-2006 are estimated amounts based on actual amounts through March 31, 2006.

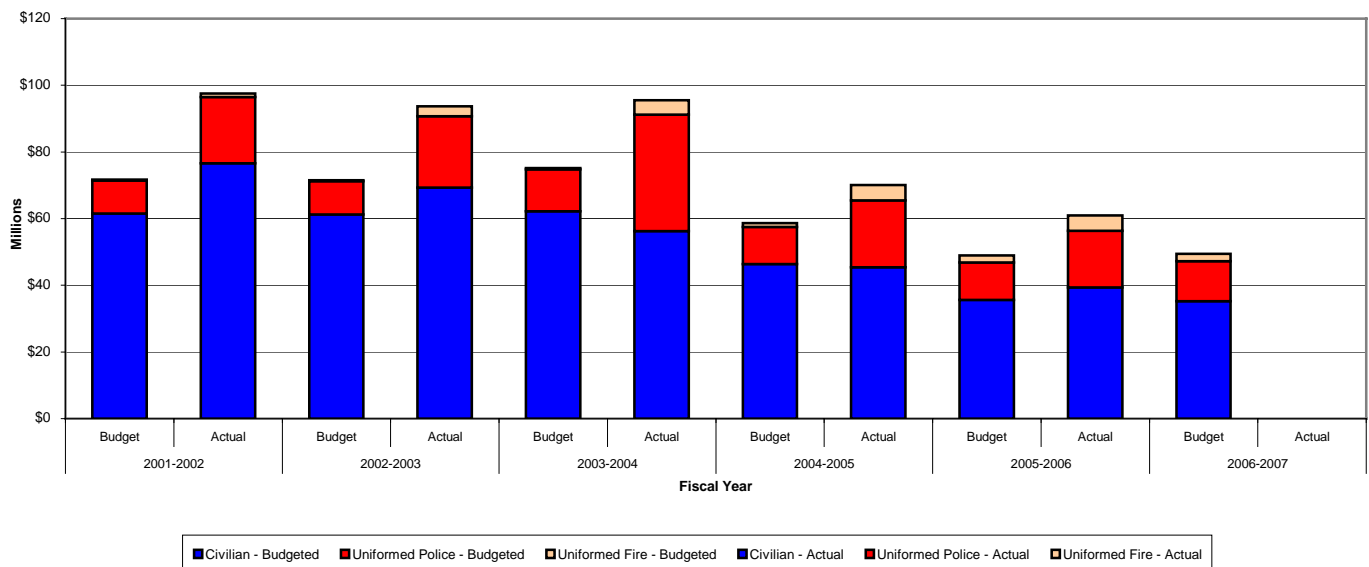
In fiscal year 2004-2005, Uniform Police Salaries and Wages was below its budget by \$2.5 million or 1.2%. The schedule below compares budgeted Salaries and Wages for Uniform Police and Fire employees for fiscal years 2001-2002 through 2004-2005, budgeted Police and Fire Salaries and Wages and estimated Salaries and Wages for fiscal year 2005-2006, and the Mayor's Proposed 2006-2007 Salaries and Wages. Actual amounts are not available for fiscal year 2006-2007 and are indicated with a N/A.

Fiscal Year	In Millions								
	Uniform Police			Uniform Fire			Total		
	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget	<u>Budgeted</u>	<u>Actual</u>	Over (Under) Budget
2001-2002	\$ 204.6	\$ 215.1	\$ 10.5	\$ 74.1	\$ 71.6	\$ (2.5)	\$ 278.7	\$ 286.7	\$ 8.0
2002-2003	200.0	211.7	11.7	75.2	74.7	(0.5)	275.2	286.4	11.2
2003-2004	209.7	228.4	18.7	77.7	77.4	(0.3)	287.4	305.8	18.4
2004-2005	214.8	212.3	(2.5)	83.2	79.3	(3.9)	298.0	291.6	(6.4)
2005-2006	179.2	189.0	9.8	73.7	70.5	(3.2)	252.9	259.5	6.6
2006-2007	187.4	N/A	N/A	71.8	N/A	N/A	259.2	N/A	N/A

NOTE: The fiscal year 2005-2006 budgeted amount for Police and Fire was amended to include \$22.8 million related to the rescission of the 10.0% pay reduction. The actual amounts shown for fiscal year 2005-2006 are estimated amounts based on actual amounts through March 31, 2006.

Overtime

Salaries and Wages also include \$49.4 million in citywide overtime, an increase of \$0.4 million or 0.8% from the fiscal year 2005-2006 budgeted amount of \$49.0 million. The chart below compares budgeted overtime to actual overtime expenditures for fiscal years 2001-2002 to 2004-2005, budgeted and estimated overtime for fiscal year 2005-2006 and the Mayor's 2006-2007 Proposed Budget amount.



Historically, actual overtime exceeds budgeted overtime citywide. As shown in the following chart, the City's efforts to reduce overtime are working; however, Uniform employees are expected to exceed budgeted overtime by 48.0% in fiscal year 2005-2006. The schedule below compares budgeted overtime to actual overtime for fiscal years 2001-2002 through 2004-2005, budgeted and estimated overtime for fiscal year 2005-2006, and the proposed 2006-2007 fiscal year overtime. Actual overtime for fiscal year 2006-2007 is not available and is indicated with a N/A.

Fiscal Year	In Millions								
	Civilian			Uniform Police and Fire			Total		
	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget
2001-2002	\$ 61.6	\$ 76.6	\$ 15.0	\$ 10.1	\$ 20.9	\$ 10.8	\$ 71.7	\$ 97.5	\$ 25.8
2002-2003	61.2	69.3	8.1	10.3	24.3	14.0	71.5	93.6	22.1
2003-2004	62.2	56.3	(5.9)	12.9	39.2	26.3	75.1	95.5	20.4
2004-2005	46.3	45.3	(1.0)	12.3	24.7	12.4	58.6	70.0	11.4
2005-2006	35.6	39.4	3.8	14.6	21.6	7.0	50.2	61.0	10.8
2006-2007	35.2	N/A	N/A	14.2	N/A	N/A	49.4	N/A	N/A

NOTE: The fiscal year 2005-2006 budgeted amount for Police and Fire was amended to include \$22.8 million related to the rescission of the 10.0% pay reduction. The actual amounts shown for fiscal year 2005-2006 are estimated amounts based on actual amounts through March 31, 2006.

The schedule below compares budget to actual Uniformed Police and Fire overtime for fiscal years 2001-2002 through 2004-2005, budgeted overtime and estimated Uniformed Police and Fire overtime for fiscal year 2005-2006, and the Mayor's 2006-2007 Proposed Budget amount. N/A indicates actual amounts not available.

Fiscal Year	In Millions								
	Uniform Police			Uniform Fire			Total		
	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget	Budgeted	Actual	Over (Under) Budget
2001-2002	\$ 9.8	\$ 19.8	\$ 10.0	\$ 0.3	\$ 1.1	\$ 0.8	\$ 10.1	\$ 20.9	\$ 10.8
2002-2003	9.8	21.4	11.6	0.4	2.9	2.5	10.3	24.3	14.0
2003-2004	12.5	34.9	22.4	0.4	4.3	3.9	12.9	39.2	26.3
2004-2005	11.2	20.1	8.9	1.1	4.5	3.4	12.3	24.6	12.3
2005-2006	12.3	17.0	4.7	2.3	4.6	2.3	14.6	21.6	7.0
2006-2007	12.1	N/A	N/A	2.1	N/A	N/A	14.2	N/A	N/A

NOTE: The fiscal year 2005-2006 budgeted amount for Police and Fire was amended to include \$22.8 million related to the rescission of the 10.0% pay reduction. The actual amounts shown for fiscal year 2005-2006 are estimated amounts based on actual amounts through March 31, 2006.

Eliminating the Zoological Institute and the Historical Department

The Mayor's 2006-2007 Proposed Budget decreases Salaries and Wages for the Zoological Institute by approximately \$5.0 million and \$0.6 million for the Historical Department from the fiscal year 2005-2006 Budget. The decreases are based on the City turning over operating control of the departments to the Zoological Society and the Detroit Historical Society, respectively, during fiscal year 2005-2006.

Transferring Civic Center and Department of Transportation

For fiscal year 2005-2006, the Mayor's Proposed Budget anticipated the transfer of the Civic Center and the Department of Transportation (DDOT) to regional authorities by December 31, 2005. The budget adopted by City Council anticipated the departments remaining with the City and increased funding to both agencies. Both Departments remained within City operations. The Mayor's 2006-2007 Proposed Budget includes Salaries and Wages of \$1.6 million for the Civic

Center and \$57.9 million for DDOT, which is an increase of \$0.1 million and \$3.0 million respectively from fiscal year 2005-2006. Transfers to regional authorities are not proposed in the Mayor's 2006-2007 Proposed Budget.

Reduction in Budgeted Positions

There are 787 fewer budgeted positions in the Mayor's 2006-2007 Proposed Budget, as compared to the 2005-2006 Budget. The Budget Department anticipates \$12.5 million in cost savings associated with the decrease in budgeted positions.

Number of Budgeted Positions

The following schedule shows the total number of positions in the Mayor's 2006-2007 Proposed Budget and the fiscal year 2005-2006 budget. Budgeted and actual positions for each agency are shown in the chart accompanying this section.

	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Civilian Positions	10,542	11,243	(701)
Uniform Police	3,252	3,449	(197)
Uniform Fire	1,170	1,059	111
Total Uniform Positions	4,422	4,508	(86)
Total Number of Budgeted Positions	14,964	15,751	(787)

The decrease in the number of budgeted positions reflects 77 layoffs, and the net elimination of 710 budgeted positions.

Layoffs

The Mayor's 2006-2007 Proposed Budget includes layoffs of 77 employees. Total layoffs include 11 positions in the Civic Center, 24 positions in the Planning and Development Department, 9 positions in the Department of Public Works, 9 positions in the Department of Health and Wellness Promotion, and 24 positions in other City departments. A cost savings of \$3.4 million is anticipated.

General Services Department

The Mayor's 2006-2007 Proposed Budget includes the transfer of 629 positions to establish the General Services Department. The total transfers include 228 positions from the Department of Public Works, 250 positions from the Recreation Department, 30 positions from the Police Department (Civilian), 43 positions from the Fire Department, and 78 positions from other City departments.

Net Elimination of Vacant Positions

The Mayor's 2006-2007 Proposed Budget reflects a net elimination of 710 vacant positions in various City agencies. Altogether 859 vacant positions are eliminated, while 149 positions were added or transferred. The net elimination of budgeted positions includes 66 positions in the Department of Public Works, 76 positions in the Department of Health and Wellness Promotion, 50 positions in the Human Resources Department, 205 positions in the Police Department (8 Civilian and 197 Uniformed), 153 positions in the Zoological Institute and the net elimination of 160

positions in other City departments. The Budget Department anticipates the cost savings to be \$9.1 million.

Conclusion

The amount budgeted for Salaries and Wages appears to be reasonable. The budgeted amount includes the step and merit pay increases. However, we note the following concerns:

- The likelihood that union approval of a 10.0% pay cut will be approved by July 1, 2006 is questionable. The Mayor will not be able to impose the City's last best offer on all of the unions because not all of the unions are at impasse in their negotiations with the City and have not been through the fact-finding process.
- The assumption that actual overtime will not exceed budgeted overtime is inconsistent with the City's overtime trend.

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
MAYOR'S 2006-2007 PROPOSED BUDGET/2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget		Actual as of April 1, 2006	
	Number	% of Total	Number	% of Total	Number	% of Total
EXECUTIVE AGENCIES:						
12 Budget	23	0.16 %	27	0.18 %	25	0.18 %
14 Civic Center	32	0.22	83	0.53	60	0.42
16 Consumer Affairs (A)	-	-	15	0.10	14	0.10
19 Department of Public Works	685	4.58	988	6.28	864	5.98
21 Detroit Workforce Development Dept.	95	0.64	95	0.61	90	0.63
22 Environmental Affairs	47	0.32	22	0.14	21	0.15
23 Finance	329	2.20	394	2.51	303	2.10
24 Fire	1,533	10.25	1,501	9.53	1,560	10.79
25 Dept. of Health and Wellness Promotion	401	2.68	531	3.38	484	3.35
26 Historical (B)	-	-	19	0.12	6	0.05
28 Human Resources	261	1.75	317	2.02	234	1.62
29 Human Rights	7	0.05	8	0.05	8	0.06
30 Department of Human Services	137	0.92	138	0.88	131	0.91
31 Information Technology Services	123	0.83	146	0.93	98	0.68
32 Law	139	0.93	146	0.93	143	0.99
33 Mayor's Office	70	0.47	69	0.44	61	0.43
36 Planning and Development Department	184	1.23	233	1.48	202	1.40
37 Police	3,641	24.34	3,876	24.61	3,574	24.71
38 Public Lighting	227	1.52	244	1.55	219	1.52
39 Recreation	202	1.35	491	3.12	578	4.00
40 Senior Citizens (C)	-	-	9	0.06	5	0.04
44 Zoological Institute (D)	-	-	153	0.98	121	0.84
45 Department of Administrative Hearings	6	0.04	6	0.04	6	0.05
46 Detroit Office of Homeland Security (E)	4	0.03	-	-	4	0.03
47 General Services Department (F)	629	4.21	-	-	-	-
TOTAL EXECUTIVE AGENCIES	8,775	58.64 %	9,511	60.39 %	8,811	60.92 %
LEGISLATIVE AGENCIES:						
50 Auditor General	21	0.14 %	23	0.15 %	17	0.12 %
51 Zoning	6	0.04	13	0.09	11	0.08
52 City Council	82	0.55	104	0.66	92	0.64
53 Ombudsperson	7	0.05	6	0.04	6	0.05
70 City Clerk	25	0.17	29	0.19	27	0.19
71 Election Commission	66	0.45	89	0.57	66	0.46
TOTAL LEGISLATIVE AGENCIES	207	1.39 %	264	1.68 %	219	1.52 %

**NUMBER OF EMPLOYEES BY DEPARTMENT
COMPARATIVE SUMMARY OF BUDGETED POSITIONS
MAYOR'S 2006-2007 PROPOSED BUDGET/2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget		Actual as of April 1, 2006	
	Number	% of Total	Number	% of Total	Number	% of Total
JUDICIAL AGENCY:						
60 36th District Court	392	2.62 %	397	2.52 %	456	3.16 %
OTHER AGENCY:						
35 Non-Departmental	59	0.40 %	31	0.20 %	44	0.31 %
TOTAL GENERAL CITY						
AGENCIES	9,433	63.04 %	10,203	64.78 %	9,530	65.89 %
ENTERPRISE AGENCIES:						
(TAX SUPPORTED)						
10 Airport	8	0.06 %	5	0.04 %	14	0.10 %
13 Buildings and Safety Engineering	331	2.22	322	2.05	292	2.02
20 Department of Transportation	1,534	10.26	1,534	9.74	1,589	10.99
72 Library	465	3.11	465	2.96	459	3.18
TOTAL TAX SUPPORTED						
ENTERPRISE AGENCIES	2,338	15.63 %	2,326	14.77 %	2,354	16.28 %
TOTAL TAX SUPPORTED						
AGENCIES	11,771	78.67 %	12,529	79.55 %	11,884	82.17 %
ENTERPRISE AGENCIES:						
(NONTAX SUPPORTED)						
34 Municipal Parking	117	0.79 %	117	0.75 %	110	0.76 %
41 D.W.S.D. - Water Supply	1,900	12.70	1,916	12.17	1,538	10.64
42 D.W.S.D. - Sewerage Disposal	1,176	7.86	1,189	7.55	932	6.45
TOTAL NONTAX SUPPORTED						
ENTERPRISE AGENCIES	3,193	21.34 %	3,222	20.46 %	2,580	17.84 %
GRAND TOTAL - ALL AGENCIES						
	14,964	100.00 %	15,751	100.00 %	14,464	100.00 %

(A) The Mayor recommends that the functions of this department be transferred to the Recreation, Buildings and Safety Engineering, and Police Departments.

(B) This department has been eliminated, and the functions have been outsourced to the Detroit Historical Society.

(C) The Mayor recommends that the functions of this department be transferred to the Recreation Department.

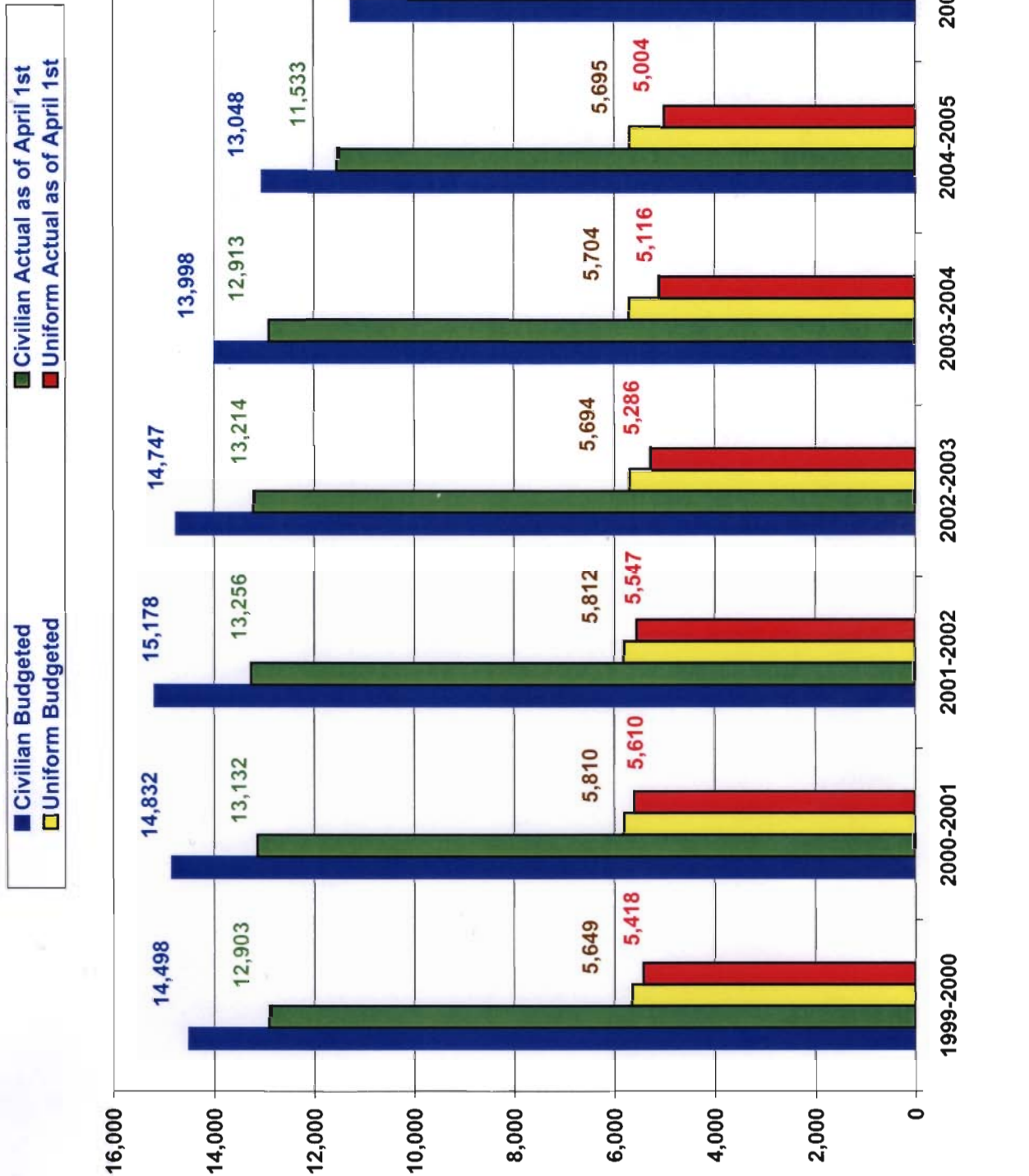
(D) This department has been eliminated, and the functions have been outsourced to the Detroit Zoological Society.

(E) This department has been restored.

(F) The Mayor recommend's that this department be created in order to provide asset management service for the City, such as: maintaining City owned facilities, grounds, and parks; buying and leasing vehicles for City departments; and procuring and managing office space for the City.

COMPARISON OF BUDGETED TO ACTUAL POSITIONS

(All Funds)



FRINGE BENEFITS (Excluding Pensions)

The City provides both nonnegotiable (those regulated by either Federal or State law) and negotiable fringe benefits to both civilian and uniform employees, as well as to retired employees.

The Mayor's 2006-2007 Proposed Budget includes \$312.0 million for fringe benefits (excluding pensions), which is a \$36.8 million increase from the \$275.2 million included in the fiscal year 2005-2006 Budget. This increase is primarily caused by an increase in hospitalization appropriations of \$33.7 million or 18.3%. Shown below is a trend analysis of total fringe benefits (excluding pensions) appropriations for fiscal years 1997-1998 to 2005-2006, and the proposed appropriation for fiscal year 2006-2007.

<u>Fiscal Year</u>	<u>Fringe Benefits (In Millions)</u>	<u>Percentage Increase/(Decrease) From Prior Year</u>
1997-1998	\$ 241.8	2.2 %
1998-1999	247.8	2.5
1999-2000	261.1	5.4
2000-2001	263.5	0.9
2001-2002	290.8	10.4
2002-2003	303.1	4.2
2003-2004	345.1	13.9
2004-2005	373.0	8.1
2005-2006	275.2	(26.2)
2006-2007	312.0	13.4

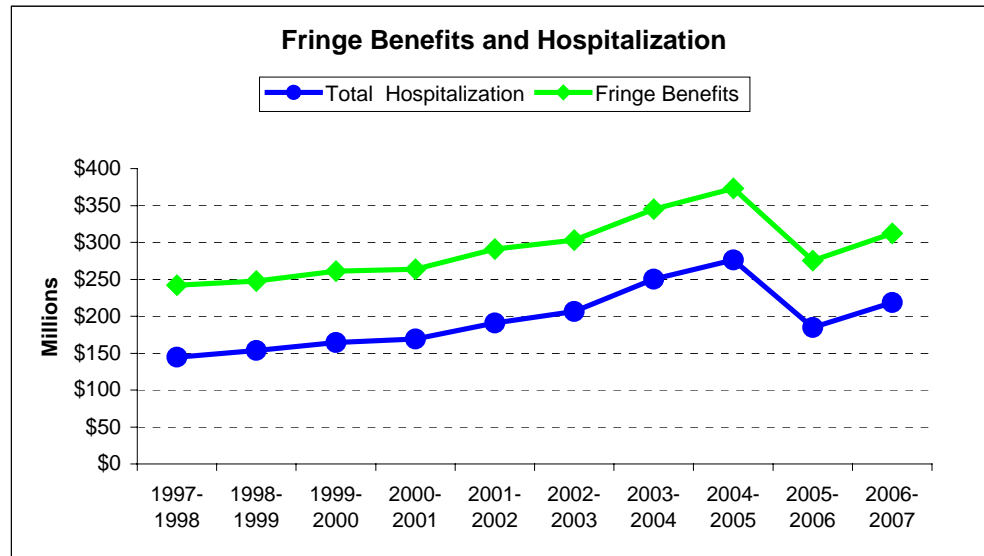
The fringe benefit budget for fiscal year 2006-2007 is comprised of \$58.5 million of legally required benefits and \$253.5 million of negotiable fringe benefits. Exhibit 11 compares the budgeted fringe benefits and pension costs, in total, for fiscal year 2005-2006 and the Mayor's 2006-2007 Proposed Budget.

In the fiscal year 2005-2006 budget there were assumed savings of \$47.0 million for health care costs that did not materialize. The Budget Department has estimated a \$42.0 million deficit in fringe benefits for the current fiscal year.

The Mayor's 2006-2007 Proposed Budget recognizes savings of \$48.0 million in General Fund healthcare benefits, with \$32.0 million recognized as savings from the new healthcare plan design. The new plan is still in the negotiation phase with labor relations and union advisors. The remaining \$16.0 million savings is detailed below:

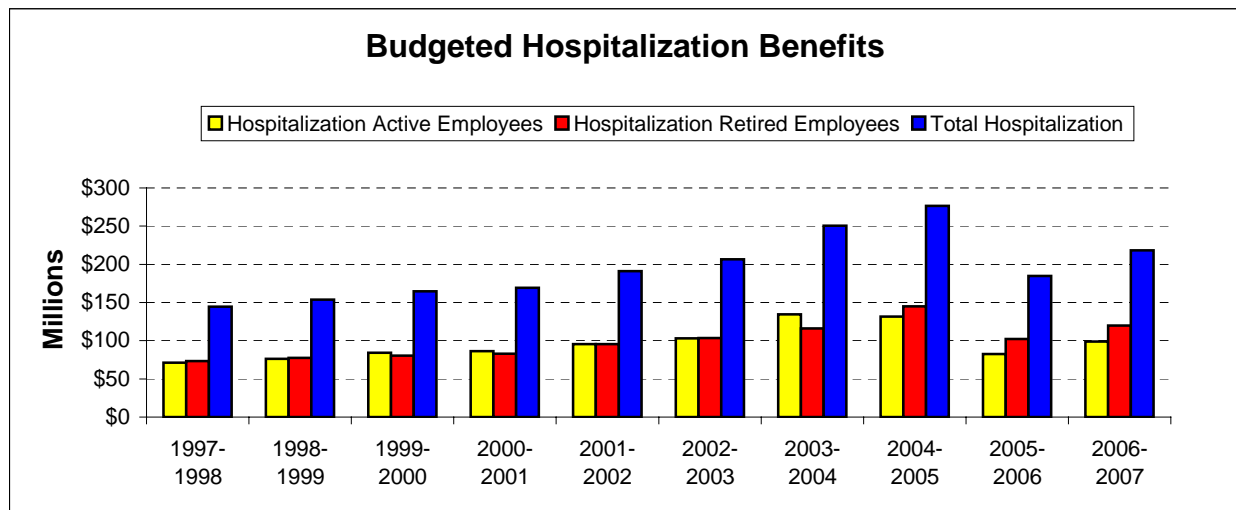
- Medicare Part D prescriptions - \$8.0 million;
- Reduction in rates for non-Blue Cross/Blue Shield (BCBS) providers - \$6.0 million; and
- Administrative rate reductions through BCBS - \$2.0 million.

The Mayor's proposed \$253.5 million budget for negotiable fringe benefits is a 20.1% increase from the \$211.1 million budgeted in fiscal year 2005-2006. As shown below, the trend in overall fringe benefit costs is directly proportional to cost changes in hospitalization benefits.



Hospitalization

The budgeted expenditures for hospitalization increased 18.2% from fiscal year 2005-2006. A total of \$218.4 million (\$98.8 million for active employees and \$119.6 million for retired employees) is budgeted for fiscal year 2006-2007 compared to \$184.7 million (\$82.5 million for active employees and \$102.2 million for retired employees) in the fiscal year 2005-2006 Budget.



Hospitalization appropriations for active City employees increased \$16.3 million or 19.8%, and increased \$17.4 million or 17.0% for retired employees. This rise in active employee appropriations is due to increased healthcare costs from providers, partially offset with savings from restructuring the health benefits to a less expensive healthcare plan. The proposed healthcare benefit restructuring, which the Mayor insists will take place by July 1, 2006, will require union approval. The proposed budget also assumes that the healthcare plan for retirees will be restructured effective July 1, 2006.

Shown below is an analysis of hospitalization appropriations for fiscal years 1997-1998 to 2006-2007. The City's hospitalization appropriation has increased steadily from the fiscal year 1997-1998 Budget due to rising health care costs.

Fiscal Year	In Millions			Increase (Decrease) From Prior Year	Percentage Increase (Decrease) From Prior Year
	Hospitalization Active Employees	Hospitalization Retired Employees	Total Hospitalization		
1997-1998	\$ 71.3	\$ 73.1	\$ 144.4	\$ (1.2)	(0.8) %
1998-1999	76.2	77.5	153.7	9.3	6.4
1999-2000	84.2	80.4	164.6	10.9	7.1
2000-2001	86.2	83.1	169.3	4.7	2.9
2001-2002	95.5	95.4	190.9	21.6	12.8
2002-2003	103.0	103.4	206.4	15.5	8.1
2003-2004	134.5	115.9	250.4	44.0	21.3
2004-2005	131.4	145.2	276.6	26.2	10.5
2005-2006	82.5	102.2	184.7	(91.9)	(33.2)
2006-2007	98.8	119.6	218.4	33.7	18.2

Social Security (FICA)

The Mayor's 2006-2007 Proposed Budget includes a decrease of \$2.0 million for social security taxes, which total \$35.8 million compared to \$37.8 million in the fiscal year 2005-2006 Budget. This decrease results from a decrease in budgeted wages due to the reduction in positions.

Workers' Compensation

The Mayor's 2006-2007 Proposed Budget of \$19.9 million includes a decrease of \$1.2 million for workers compensation or 5.7% from the \$21.1 million in the fiscal year 2005-2006 Budget.

Unemployment Compensation

The Mayor's 2006-2007 Proposed Budget includes \$2.8 million for unemployment compensation as compared to the \$5.2 million included in the fiscal year 2005-2006 Budget. The reason for the \$2.4 million decrease has not been determined.

General City Employees

Fringe benefits (excluding pensions) for General City employees, which account for \$233.9 million of the total \$312.0 million budgeted for fringe benefits, were analyzed separately. General City employees include General Fund, Grant Fund, Civilian Police and Fire, and Uniform Police and Fire.

Exhibit 12 compares the Mayor's 2006-2007 proposed fringe benefits for both civilian and uniform employees to the 2005-2006 budgeted fringe benefits. Of the \$233.9 million budgeted, \$106.2 million is for General City civilian fringe benefits and \$127.7 million is for Police and Fire employee fringe benefits. This is a \$31.6 million increase from the \$202.3 million budgeted for fiscal year 2005-2006.

The Mayor's proposed budget for Police and Fire retired employees' hospitalization is \$66.0 million compared to the \$32.4 million for civilian employees. The disparity is due primarily to the City's 100.0% contribution for healthcare costs for uniform employees, and because uniform employees can retire after 25 years of service versus 30 years of service for civilian employees.

Exhibit 13 shows the same comparison as Exhibit 12 on a per budgeted employee basis. Exhibit 13 reflects a 37.4% increase in civilian fringe benefits, a 28.6% increase in Police fringe benefits, and an 8.4% increase in Fire fringe benefits.

Conclusion

The Mayor's 2006-2007 Proposed Budget appears to fund the estimated cost of the City's fringe benefits. The proposed fringe benefit budget reflects anticipated cost savings of \$58.0 million, based on the assumption that negotiations between the administration and the union leadership will be completed by July 1, 2006. However, it is unlikely that the City will be able to implement the revised health plans for all City employees by July 1, 2006 to realize a full year's savings. The Mayor will not be able to impose the City's last best offer on all of the unions, because all unions are not at an impasse in their negotiations with the City, and have not been through the fact-finding process. If savings is realized for the full year, the 20.1% increase in negotiable fringe benefits is reasonable.

EXHIBIT 11

**FRINGE BENEFITS COST IN TOTAL
CIVILIAN AND UNIFORM AND ASSOCIATED RETIREES
OF THE CITY OF DETROIT**

BENEFIT CATEGORY	Budgeted Employee Benefits			
	2006-2007 Mayor's Budget	2005-2006 Budget	Increase/ (Decrease)	% Increase/ (% Decrease)
Pensions	\$ 186,291,096	\$ 150,688,346	\$ 35,602,750	23.63 %
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 35,822,777	\$ 37,841,945	\$ (2,019,168)	(5.34) %
Unemployment Compensation	2,833,790	5,189,263	(2,355,473)	(45.40)
Workers' Compensation	19,856,980	21,052,198	(1,195,218)	(5.68)
Total Legally Required Fringe Benefits	\$ 58,513,547	\$ 64,083,406	(\$5,569,859)	(8.70) %
<u>Negotiable Fringe Benefits:</u>				
Hospitalization:				
For Employees	\$ 98,815,480	\$ 82,493,315	\$ 16,322,165	19.79 %
For Retirees	119,629,903	102,224,914	17,404,989	17.03
Dental:				
For Employees	5,342,819	4,298,066	1,044,753	24.31
For Retirees	6,742,445	5,770,768	971,677	16.84
Eye Care:				
For Employees	1,351,334	1,679,167	(327,833)	(19.53)
For Retirees	1,629,405	1,721,805	(92,400)	(5.37)
Disability Medical	1,310,496	1,131,984	178,512	15.77
Longevity	9,045,289	10,304,942	(1,259,653)	(12.22)
Death Benefit	-	49,723	(49,723)	(100.00)
Group Life Insurance	1,653,414	1,494,887	158,527	10.61
Retirement Sick Leave	13,501,625	7,164,023	6,337,602	88.47
Income Protection	2,372,474	1,966,842	405,632	20.63
Miscellaneous	5,332,578	4,454,698	877,880	19.71
Fringe Clearing Account	(13,196,444)	(13,621,333)	424,889	(3.12)
Total Negotiable Fringe Benefits	\$ 253,530,818	\$ 211,133,801	\$ 42,397,017	20.08 %
Total Fringe Benefit Costs Excluding Pensions	\$ 312,044,365	\$ 275,217,207	\$ 36,827,158	13.38 %
Total Fringes and Pension	\$ 498,335,461 ^A	\$ 425,905,553	\$ 72,429,908	17.01 %

^A This amount differs by \$2 from the total fringes and pension cost included in the 2006-2007 Mayor's Budget due to rounding.

**FRINGE BENEFIT COST COMPARISON
FOR CIVILIAN AND UNIFORM EMPLOYEES
AND ASSOCIATED RETIREES**

BENEFIT CATEGORY	Budgeted Fringe Benefit Amounts For Civilian Employees (A)		Budgeted Fringe Benefit Amounts For Uniform Employees	
	2006-2007 Mayor's Budget	2005-2006 Budget	2006-2007 Mayor's Budget	2005-2006 Budget
Pensions	\$ 48,924,632	\$ 34,783,492	\$ 93,234,226	\$ 76,700,827
<u>Nonnegotiable Fringe Benefits:</u> (Legally Required)				
Social Security (FICA)	\$ 16,724,501	\$ 18,235,407	\$ 1,264,123	\$ 1,268,047
Unemployment Compensation	2,063,225	4,367,677	-	-
Workers' Compensation	10,331,128	10,119,927	-	-
Total Legally Required Fringe Benefits	\$ 29,118,854	\$ 32,723,011	\$ 1,264,123	\$ 1,268,047
<u>Negotiable Fringe Benefits:</u>				
Hospitalization:				
For Employees	\$ 32,528,701	\$ 26,910,010	\$ 36,921,504	\$ 29,432,339
For Retirees	32,370,864	26,778,686	65,969,656	56,676,961
Dental:				
For Employees	1,893,710	1,596,939	1,685,496	1,187,045
For Retirees	2,415,712	2,378,665	2,873,464	2,155,399
Eye Care:				
For Employees	358,088	439,916	622,408	849,228
For Retirees	590,196	476,825	699,560	929,618
Disability Medical	-	-	1,310,496	1,131,984
Longevity	1,946,335	2,070,601	5,448,541	5,379,880
Death Benefit	-	49,723	-	-
Group Life Insurance	579,561	664,780	824,320	605,341
Retirement Sick Leave	3,988,050	2,135,842	6,272,728	3,646,813
Income Protection (B)	896,359	758,885	-	-
Miscellaneous	(465,192)	(643,627)	3,856,546	2,677,312
Total Negotiable Fringe Benefits	\$ 77,102,384	\$ 63,617,245	\$ 126,484,719	\$ 104,671,920
Total Fringe Benefit Costs Excluding Pensions	\$ 106,221,238	\$ 96,340,256	\$ 127,748,842	\$ 105,939,967
Total Fringes and Pension	\$ 155,145,870	\$ 131,123,748	\$ 220,983,068	\$ 182,640,794

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

FRINGE BENEFIT COST PER BUDGETED POSITION

BENEFIT CATEGORY	Civilian (A)		Police-Uniform		Fire-Uniform	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
	Mayor's Budget	Budget	Mayor's Budget	Budget	Mayor's Budget	Budget
Pensions	\$ 9,579.92	\$ 6,006.47	\$ 20,691.22	\$ 16,543.04	\$ 22,176.40	\$ 19,575.08
<u>Nonnegotiable Fringe Benefits:</u>						
(Legally Required)						
Social Security (FICA)	\$ 3,274.82	\$ 3,148.92	\$ 256.73	\$ 260.50	\$ 366.86	\$ 349.00
Unemployment Compensation	404.00	754.22	-	-	-	-
Workers' Compensation	2,022.93	1,747.53	-	-	-	-
Total Legally Required Fringe Benefits	\$ 5,701.75	\$ 5,650.67	\$ 256.73	\$ 260.50	\$ 366.86	\$ 349.00
<u>Negotiable Fringe Benefits:</u>						
Hospitalization:						
For Employees	\$ 6,369.43	\$ 4,646.87	\$ 8,399.91	\$ 6,319.47	\$ 8,209.40	\$ 7,211.05
For Retirees	6,338.53	4,624.19	15,508.50	12,302.18	13,278.63	13,453.03
Dental:						
For Employees	370.81	275.76	375.00	246.83	398.29	317.02
For Retirees	473.02	410.75	660.66	466.47	619.66	516.08
Eye Care:						
For Employees	70.12	75.97	138.81	178.61	146.15	220.21
For Retirees	115.57	82.34	158.84	197.24	156.41	235.46
Disability Medical	-	-	299.97	242.30	286.32	279.80
Longevity	381.11	357.55	1,143.93	1,089.63	1,477.34	1,531.40
Death Benefit	-	8.59	-	-	-	-
Group Life Insurance	113.48	114.80	186.14	122.60	187.18	172.33
Retirement Sick Leave	780.90	368.82	1,344.63	775.20	1,623.93	918.94
Income Protection (B)	175.52	131.05	-	-	-	-
Miscellaneous	(91.09)	(111.14)	19.77	14.96	3,241.25	2,479.44
Total Negotiable Fringe Benefits	\$ 15,097.40	\$ 10,985.55	\$ 28,236.16	\$ 21,955.49	\$ 29,624.56	\$ 27,334.76
Total Fringe Benefit Costs Per Budgeted Position (Excluding Pensions)	\$ 20,799.15	\$ 16,636.22	\$ 28,492.89	\$ 22,215.99	\$ 29,991.42	\$ 27,683.77
Total Fringes and Pension	\$ 30,379.06	\$ 22,642.69	\$ 49,184.11	\$ 38,759.03	\$ 52,167.82	\$ 47,258.84

(A) - Includes civilian employees of the General and Grant Funds.

(B) - Income Protection does not apply to Uniform Police and Fire employees.

PENSIONS

The City's budgeted appropriations for pension costs are normally based on contribution rates computed by actuaries for the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS). The contribution rates are applied to the appropriate budgeted salary amounts to determine the budgeted amount of the City's contributions for employees' pensions. A level percent-of-payroll contribution requires that the City's contribution rate provide for the employer normal cost amount plus amortization of the unfunded actuarial accrued liability (UAAL - the difference between the actuarial accrued liability and current assets). Employer normal cost is defined as the value of retirement benefits likely to be paid for employee services being rendered in the current year. In fiscal year 2006-2007, there is a new third component used to compute the budgeted pension cost – an amount to cover the estimated debt service (principal and interest) on the pension obligation certificates (POCs).

The following schedule is a comparison of the Mayor's 2006-2007 Proposed Budget to the fiscal year 2005-2006 Budget for appropriations that cover the costs of employees' pensions:

In Millions			
<u>Employee Category</u>	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
GRS Employees	\$ 93.1	\$ 74.1	\$ 19.0
PFRS Employees	93.2	97.0	(3.8)
Total	<u>\$ 186.3</u>	<u>\$ 171.1</u>	<u>\$ 15.2</u>

The Mayor's 2006-2007 Proposed Budget includes GRS pension costs based on separate contribution rates, determined by the actuaries, for various City funds, such as the General Fund and each Enterprise Fund. The following schedule compares the Mayor's 2006-2007 Proposed Budget for pension costs to the pension costs based on the actuarial rates and using the third component:

In Millions			
<u>Employee Category</u>	Mayor's 2006-2007 Proposed Budget	OAG Computed 2006-2007	Increase (Decrease)
GRS	\$ 50.7	\$ 51.8	\$ (1.1)
PFRS	58.7	60.0	(1.3)
POC Debt Service	76.9	98.7	(21.8)
Total	<u>\$ 186.3</u>	<u>\$ 210.5</u>	<u>\$ (24.2)</u>

The amount budgeted for the POC debt service is understated by \$21.8 million, as the budgeted amount of \$76.9 million is less than the Office of the Auditor General (OAG) computed amount of \$98.7 million, which is the amount due for principal and interest in June 2007. Most of this \$21.8 million would be deferred if the administration's plan to refinance a portion of the POCs

over a longer term is completed by June 15, 2006. This transaction must be approved by City Council. The Mayor stated that the refinancing of the POCs will result in a \$20.0 million savings in fiscal year 2006-2007. For details about the POC refinancing see the discussion in Bonds, Certificates and Notes Payable.

Budget Department representatives stated that in determining pension costs, budgeted salary amounts are used. In the Mayor's 2006-2007 Proposed Budget, the salary amounts for union employees have been reduced for days off without pay (DOWOP). The lower salary amount should not be used when calculating pension costs, as the payout rate will be based on the employee's base pay which is their higher salary or wage.

The 67th Annual Actuarial Valuation report, for June 30, 2005, provides that the GRS, on an actuarial basis, is under-funded by \$125.0 million, down from \$913.7 million last year. The \$788.7 million decrease is due primarily to the issuance of the \$1,440.0 million of pension obligations certificates (POCs) in May 2005, with \$739.8 million contributed to the GRS.

The Mayor's 2006-2007 Proposed Budget includes PFRS pension costs based on separate contribution rates for the Police and Fire Retirement System. Pension costs calculated by applying the rates determined by the actuary to the budgeted salaries and wages results in slightly higher pension costs (\$60.0 million) than the budgeted pension costs (\$58.7 million).

The 64th Annual Actuarial Valuation report, for June 30, 2005, provides that the PFRS, on an actuarial basis, is under-funded by \$22.5 million, down from \$783.0 million last year. This \$760.5 million decrease is also due to the issuance of the POCs, with \$630.8 million contributed to the PFRS.

The PFRS had excess funding for fiscal years 1998-1999 through 2001-2002 as detailed below. The GRS has been under-funded for over twenty years.

The following schedule shows the excess/(under) funding amount for the GRS and PFRS going back to fiscal year 1998-1999.

In Millions			
Fiscal Year	GRS Excess/(Under) Funding Amount	PFRS Excess/(Under) Funding Amount	Total Excess/(Under) Funding Amount
1998-1999	\$ (143.8)	\$ 394.3	\$ 250.5
1999-2000	(174.6)	622.1	447.5
2000-2001	(267.5)	436.8	169.3
2001-2002	(489.3)	114.8	(374.5)
2002-2003	(732.9)	(516.1)	(1,249.0)
2003-2004	(913.7)	(783.0)	(1,696.7)
2004-2005	(125.0)	(22.5)	(147.5)

The following schedule shows the required annual City contributions to the GRS and to the PFRS for the past ten fiscal years through June 30, 2005, and the proceeds of the POCs:

Fiscal Year	In Millions		
	GRS	PFRS	Total Contribution
1995-1996	\$ 42.5	\$ 55.0	\$ 97.5
1996-1997	54.7	54.6	109.3
1997-1998	52.7	48.1	100.8
1998-1999	55.7	15.7	71.4
1999-2000	66.7	20.0	86.7
2000-2001	68.1	14.4	82.5
2001-2002	67.8	8.4	76.2
2002-2003	72.9	66.8	139.7
2003-2004	95.9	69.5	165.4
2004-2005	41.7	51.6	93.3
POC	739.8	630.8	1,370.6

As shown by the preceding schedule, the annual contributions made by the City to the GRS increased from \$42.5 million in fiscal year 1995-1996 to \$95.9 million in fiscal year 2003-2004, before decreasing to \$41.7 million in fiscal year 2004-2005. This decrease is due to the issuance of the POCs. Prior to the issuance of the POCs, the \$53.4 million increase from fiscal year 1995-1996 to fiscal year 2003-2004 was due to increases in covered payroll, increases in the contribution rates, resulting in part, from improvements in retirement benefits; and reduced income from investments as a result of weak market performance in fiscal years 2000-2001 through 2002-2003.

The preceding schedule also shows that the annual contributions made by the City to the PFRS decreased each year from fiscal years 1995-1996 through 2001-2002, due to the over-funded status of the PFRS fund during those years. The PFRS annual contribution increased \$61.1 million in fiscal year 2003-2004 from fiscal year 2001-2002. The increased contribution in fiscal year 2003-2004 is primarily due to the market losses experienced and the negotiated agreement in fiscal year 2000-2001 by which a portion of the excess funding of the System was distributed among the City, active employees, and retirees.

The last line in the preceding schedule shows contributions from the POC transaction of \$739.8 million to GRS, and \$630.8 million to PFRS. The total of these two amounts, \$1,370.6 million, was the net proceeds from the issuance of the POCs in the amount of \$1,440.0 million.

As shown in the schedule on the following page, the City has not paid all of the pension contributions when due. Consequently, interest is accrued on the unpaid amounts at the assumed actuarial investment rate of return (7.9% for the GRS and 7.8% for the PFRS) and will be added to the amount owed to the pension systems.

Estimated amounts (excluding interest payments) that will be owed the two systems at June 30, 2006 are:

			In Millions	
Contribution Due for <u>Fiscal Year</u>	<u>Due Date</u>	Projected <u>Payment Date</u>	Amount Due <u>GRS</u>	Amount Due <u>PFRS</u>
2003-2004	June 30, 2004	June 30, 2006	\$ 0.0	\$ 9.8
2004-2005	June 30, 2005	June 30, 2006	8.8	51.0
2005-2006	June 30, 2006	June 30, 2007	<u>74.1</u>	<u>70.0</u>
Total			<u>\$ 82.9</u>	<u>\$ 130.8</u>

The City's ability to pay the contributions due for fiscal years 2003-2004 and 2004-2005 is dependent on the following:

- The refinancing of the Series B POCs (\$800.0 million) must be completed prior to June 15, 2006;
- The issuance of Tax Anticipation Notes and Revenue Anticipation Notes for a total amount of \$127.0 million must be completed by June 30, 2006;
- The sale of the Greektown parking garage must be completed by June 30, 2006.

By June 30, 2007, the City will be required to pay the deferred pension contribution for fiscal year 2005-2006 and the pension contribution for fiscal year 2006-2007. Payment of these amounts is dependent on sufficient cash being available to make both contributions.

Items Affecting Future Funding Levels

Two factors that affect the City's pension contributions in the coming years are the implementation of the GRS Defined Contribution (DC) Plan and the shifting composition of the membership of the two systems.

The Mayor's 2006-2007 Proposed Budget does not provide for the costs associated with implementing the DC Plan or the impact on the City's pension contributions. Implementation of the DC Plan, on a limited basis, has begun with the DC option being offered to the estates and beneficiaries of deceased retirees. The Mayor has indicated non-union new hires and appointees will be switched to the DC Plan on or after the effective date of the proposed ordinance to amend section 47-2-1 of the 1984 Detroit City Code, which has been submitted to City Council. When implemented, the DC Plan will permit GRS members to convert from the existing pension plan (the Defined Benefit Plan) to the DC Plan. Over time, it is anticipated that the DC Plan will provide substantial savings to the City. In the short term, however, the DC Plan could result in substantial costs to the City as a result of lowering vesting requirements to four years. It is anticipated that the DC Plan will be implemented on a retroactive basis to 1998 that would result in some current and former employees who are not vested becoming vested. The 2005 GRS actuarial valuation does not include any assumptions regarding the impact of the DC Plan on the Defined Benefit Plan.

As demonstrated in the following schedules, both pension systems have experienced a shift in the composition of their membership. Although the composition of the GRS has remained stable during the past twenty years, thirty years ago, the number of active employees paying into the GRS system was about twice the number of retired members who were receiving benefits. The change in the PFRS membership has been more dramatic. Thirty years ago, the

ratio of active employees to retired members was approximately three to two. By June 30, 2005, active members who were paying into the system represented only 36.4% of the total membership. Layoffs or reduction in the City's workforce through attrition and other measures could further erode the balance between members contributing to the systems and members receiving benefits from the systems. Membership composition is significant because, as the number of active employees paying into the system declines relative to the number of retired members receiving benefits, the City may be forced to further increase contributions to the pension funds to maintain pension benefits.

General Retirement System

Fiscal Year	Membership			Percentage	
	Active	Retired	Total	Active	Retired
1973-1974	17,930	8,377	26,307	68.2%	31.8%
1983-1984	13,172	11,643	24,815	53.1	46.9
1988-1989	13,554	11,734	25,288	53.6	46.4
1993-1994	11,382	11,649	23,031	49.4	50.6
1998-1999	11,987	11,537	23,524	51.0	49.0
2001-2002	12,639	11,363	24,002	52.7	47.3
2002-2003	12,833	11,322	24,155	53.1	46.9
2003-2004	11,791	11,311	23,102	51.0	49.0
2004-2005	9,820	11,396	21,216	46.3	53.7

Policemen and Firemen Retirement System

Fiscal Year	Membership			Percentage	
	Active	Retired	Total	Active	Retired
1973-1974	7,356	4,873	12,229	60.2%	39.8%
1983-1984	5,209	5,986	11,195	46.5	53.5
1988-1989	6,280	6,496	12,776	49.2	50.8
1993-1994	5,162	7,169	12,331	41.9	58.1
1998-1999	5,329	7,883	13,212	40.3	59.7
2001-2002	5,382	8,179	13,561	39.7	60.3
2002-2003	5,257	8,277	13,534	38.8	61.2
2003-2004	5,060	8,328	13,388	37.8	62.2
2004-2005	4,799	8,376	13,175	36.4	63.6

Conclusion

Our analysis indicates that the \$186.3 million budgeted for pension costs in the Mayor's 2006-2007 Proposed Budget is not sufficient to fund the City's projected required pension contributions for the following reasons:

- Reduced Salaries and Wages were used to calculate pension contributions for the union employees taking DOWOP days in fiscal year 2006-2007. We estimate this understatement is \$1.0 million;
- The POC refinancing must be completed prior to June 15, 2006 in order for the anticipated savings of \$20.0 million to be realized;

- There are no costs included in the Mayor's 2006-2007 Proposed Budget for the implementation of the Defined Contribution Plan and the transfer of former and existing employees from the Defined Benefit Plan to the Defined Contribution Plan.

SUMMARY OF EMPLOYEE TURNOVER SAVINGS
MAYOR'S 2006-2007 PROPOSED BUDGET

Employee turnover savings is the dollar estimate of the savings in appropriations resulting from positions included in the budget that may not require funding during some period of the fiscal year.

The Budget Department's estimate of employee turnover savings represents appropriation amounts not included in the Mayor's 2006-2007 Proposed Budget, even though the positions to which the savings relate remain in the budget. For example, an unfilled budgeted position, resulting from the retirement of an employee, generates turnover savings until the position is filled.

The total estimated employee turnover savings projected for fiscal year 2006-2007 is \$5.4 million. This estimate represents a \$25.5 million, or 82.4% decrease from the fiscal year 2005-2006 Budget of \$30.9 million. Salaries and wages, fringe benefits, and most employer pension contributions are the costs included in the calculation, while overtime and longevity are excluded.

The table below lists the estimated employee turnover savings by agency.

Agency Number	AGENCY	Mayor's Proposed 2006-2007 Budget
12	Budget Department	\$ 59,425
20	Department of Transportation	2,630,000
47	General Services Department	2,756,502
	Total Estimated Employee Turnover Savings	<u>\$ 5,445,927</u>

The following schedule provides our estimate of the number of position equivalents represented by the Budget Department's estimate of turnover savings.

Approximate Position Equivalents Included in the Budget But Not Funded Due to Estimated Turnover Savings in Fiscal Year 2006-2007
<u>Civilian Positions</u>
<u>84</u>

Our analysis indicates that there are 14,964 budgeted positions included in the Mayor's 2006-2007 Proposed Budget but funding for only 14,880 positions (14,964 - 84), as compared to the Mayor's 2005-2006 Proposed Budget, in which there was funding for 16,356 positions (16,765 - 409).

In addition, there are 787 fewer budgeted positions (14,964 versus 15,751) in the Mayor's 2006-2007 Proposed Budget, as compared to the fiscal year 2005-2006 Budget. The reduction of vacant positions over the last two years has reduced the amount of turnover savings that the City can realize.

EXHIBIT 14

**APPROPRIATIONS BY AGENCY
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget	
	Amount	Percent of Total	Amount	Percent of Total
GENERAL CITY AGENCIES:				
EXECUTIVE AGENCIES:				
12 Budget	\$ 2,752,101	0.08%	\$ 2,684,088	0.10%
14 Civic Center	14,771,503	0.40	22,983,715	0.81
16 Consumer Affairs (A)	-	0.00	1,054,989	0.04
19 Department of Public Works	182,905,508	4.99	175,620,928	6.23
21 Detroit Workforce Development Dept.	55,345,696	1.51	59,121,997	2.10
22 Environmental Affairs	3,882,022	0.11	1,951,726	0.07
23 Finance	33,683,935	0.92	34,568,613	1.23
24 Fire	172,733,522	4.72	165,579,431	5.87
25 Dept. of Health and Wellness Promotion	86,659,254	2.37	89,846,258	3.18
26 Historical (B)	-	0.00	2,317,181	0.08
28 Human Resources	21,396,446	0.58	22,510,186	0.80
29 Human Rights	874,029	0.02	812,897	0.03
30 Department of Human Services	62,975,064	1.72	76,536,894	2.71
31 Information Technology Services	21,181,971	0.58	23,944,504	0.85
32 Law	21,994,741	0.60	18,226,547	0.65
33 Mayor's Office	8,994,530	0.25	6,372,540	0.23
36 Planning and Development Department	55,426,085	1.51	59,922,481	2.12
37 Police	414,214,798	11.31	367,140,957	13.01
38 Public Lighting	79,368,819	2.17	70,287,350	2.49
39 Recreation	25,864,836	0.71	38,883,296	1.38
40 Senior Citizens (C)	-	0.00	1,384,049	0.05
44 Zoological Institute (D)	-	0.00	12,750,584	0.45
45 Department of Administrative Hearings	2,233,976	0.06	2,535,851	0.09
46 Detroit Office of Homeland Security (E)	431,279	0.01	-	0.00
47 General Services Department (F)	59,849,018	1.63	-	0.00
TOTAL EXECUTIVE AGENCIES	\$ 1,327,539,133	36.25%	\$ 1,257,037,062	44.56%
LEGISLATIVE AGENCIES:				
50 Auditor General	2,646,162	0.07%	2,357,775	0.08%
51 Zoning	843,651	0.02	706,709	0.03
52 City Council	12,100,359	0.33	12,907,672	0.46
53 Ombudsperson	964,957	0.03	818,870	0.03
70 City Clerk	3,390,724	0.09	3,676,246	0.13
71 Election Commission	7,813,278	0.21	10,166,131	0.36
TOTAL LEGISLATIVE AGENCIES	\$ 27,759,131	0.76%	\$ 30,633,403	1.09%

EXHIBIT 14

**APPROPRIATIONS BY AGENCY
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget	
	Amount	Percent of Total	Amount	Percent of Total
JUDICIAL AGENCY:				
60 36th District Court	\$ 42,499,612	1.16 %	\$ 42,958,202	1.52 %
OTHER AGENCIES:				
35 Non-Departmental	\$ 415,053,565	11.33 %	\$ 427,944,716	15.17 %
TOTAL GENERAL AGENCIES	\$ 1,812,851,441	49.51 %	\$ 1,758,573,383	62.34 %
18 Debt Service Fund	\$ 77,232,484	2.11 %	\$ 62,934,661	2.23 %
ENTERPRISE FUNDS:				
(TAX SUPPORTED)				
10 Airport	\$ 6,542,110	0.18 %	\$ 3,657,327	0.13 %
13 Buildings and Safety Engineering	36,025,228	0.98	36,606,545	1.30
20 Transportation	160,769,059	4.39	170,162,883	6.03
72 Library	47,083,808	1.29	49,116,363	1.74
TOTAL TAX SUPPORTED ENTERPRISE FUNDS	\$ 250,420,205	6.84 %	\$ 259,543,118	9.20 %
TOTAL TAX SUPPORTED FUNDS	\$ 2,140,504,130	58.45 %	\$ 2,081,051,162	73.77 %
ENTERPRISE AGENCIES:				
(NONTAX SUPPORTED)				
34 Municipal Parking	\$ 42,689,748	1.17 %	\$ 43,736,967	1.55 %
41 D.W.S.D. - Water Supply	711,897,936	19.44	303,272,036	10.75
42 D.W.S.D. - Sewage Disposal	766,749,616	20.94	392,948,116	13.93
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	\$ 1,521,337,300	41.55 %	\$ 739,957,119	26.23 %
GRAND TOTAL - ALL AGENCIES	\$ <u>3,661,841,430</u>	<u>100.00 %</u>	\$ <u>2,821,008,281</u>	<u>100.00 %</u>

(A) The Mayor recommends that the functions of this department be transferred to the Recreation, Buildings and Safety Engineering, and Police Departments.

(B) This department has been eliminated, and the functions have been outsourced to the Detroit Historical Society.

(C) The Mayor recommends that the functions of this department be transferred to the Recreation Department.

(D) This department has been eliminated, and the functions have been outsourced to the Detroit Zoological Society.

(E) This department has been restored.

(F) The Mayor recommends that this department be created in order to provide asset management service for the City, such as: maintaining City owned facilities, grounds and parks; buying and leasing vehicles for City departments; and procuring and managing office space for the City.